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The Manufacturers Hanover
# Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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## An Accommodative Fed . . .

While interest rates have dropped sharply since mid-summer, stirring a modest but welcome revival in the housing and auto industries, they still remain riveted at exceptionally lofty heights when compared with the rate of inflation. What is more, with Federal budget deficits expected to be at or near the $200 billion level this fiscal year and next, threats to the stability of both inflation expectations and interest rates cannot be too far away. But with a more accommodative monetary policy now in place, and private credit demands slumping, the potential for these twelve-digit budget deficits to boost interest rates is still in the future. Thus, the financial markets should be able to accommodate at least this year's vast Federal borrowings without [illegible] disruption.

For now, the principal challenge is to get the economy moving. This was the topic which dominated the deliberations of the Federal Reserve's policy-setting Federal Open Market Committee when it met in mid-November and again in late December. According to the minutes of the November 16 meeting, the FOMC reaffirmed its departure from rigid monetarism and its renewed attention to interest rates. With deposit innovations and maturing All Savers certificates distorting the size and significance of trends in the monetary aggregates, and common sense dictating that a tightening of the credit reins would serve neither the economy nor the Fed well, the FOMC elected not to react to above-target M1 growth. What is more, it did not even bother to set a fourth quarter, interim growth target. The FOMC also decided to let the broader aggregates, M2 and M3, grow at a 9½ per cent annual rate during this period. This rate is right at the upper end of the 8½ to 9½ per cent target growth rate set at the October meeting.

At the same time, the FOMC demonstrated that interest rates do again matter. It specified a tolerance range for fluctuations in the Federal funds rate of six to ten per cent. Since funds at that time were trading nearer the upper, rather than lower, end of this band, the FOMC was apparently signaling its desire to see short-term interest rates move lower—regardless of the current location of the M's and the prospective size of Federal budget deficits. Indeed, in order to hasten this process, the discount rate was cut in mid-December to 8½ per cent—its lowest level since 1978.

## . . . And Slumping Private Credit Needs . . .

While all the FOMC members did not concur in these moves, it appears a good bet that interest rates will continue their downward drift regardless of whether the Fed decides to actively push them down, or just follow the lead of the markets. The incompatible combination of loose fiscal and tight monetary policies has finally caught up with the private sector. Indeed, with households largely absent from the credit markets, reflecting the sharp plunge in new home and auto purchases, and non-financial business credit needs finally fading under the weight of prolonged recession, private credit demands fell by $96 billion in the third quarter compared with the second, to a seasonally adjusted $261 billion annual rate. That's a plunge of 27 per cent quarter-over-quarter. This held the overall increase in credit demands to under four per cent, or less than one fourth the rate of rise posted in the second quarter. The drop in household borrowings was so deep that the quarterly decline in consumer credit outstanding (68 per cent, quarter-over-quarter) was the fourth largest in over 20 years.

Not so for the Federal government, however. As the Federal deficit has soared, so, too, have its borrowing needs. Total Federal and related borrowings climbed to a seasonally adjusted $289 billion annual rate in the third quarter, up sharply from the seasonally adjusted $172 billion annual rate in the second quarter. At the third quarter level, Federal and related borrowings accounted for a record 52 per cent of total funds raised—a surge that was entirely responsible for the overall rise in credit demands. If, for example, Federal borrowings had expanded at just the same rate as they did in the third quarter of 1981, total funds raised would have slumped to a seasonally adjusted $389 billion annual rate—or 29 per cent below the $549 billion actually raised.



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**. . . Should Give Treasury Borrowings . . .**

With Washington's needs ballooning, and seemingly irreversible, future interest rate trends depend on how much longer the Federal Reserve can remain accommodative—not to mention private credit demands. With respect to these demands at least, although it is unlikely that they will weaken much further, it is equally unlikely that they will come roaring back any time soon. To be sure, a spurt in residential construction will be accompanied by rising mortgage loan demand, but with inflation expectations dampened, unemployment rates high and lofty real interest rates encouraging savings rather than spending, the rebound in household borrowings will be modest by historical standards. So, too, the growth of business credit demands should remain lackluster, as bolstered cash flows accompany recovery and capital spending remains soggy. Indeed, short-term credit demands will remain particularly weak both at banks and in the commercial paper market, as corporate America takes the opportunity of functioning bond markets to rearrange the maturity structure of its liabilities.

The softening of private credit needs and the positive yield curve now in place suggest that the financing of the enormous Treasury deficit (and the borrowings of the Federally-sponsored agencies) may be accomplished this year without undue market disruption. Purchases of Treasury issues by private pension funds, state and local government retirement funds and life insurance companies are already running ahead of last year's levels, and will soon be supplemented by stepped-up commercial bank purchases

## Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

| | Week Ending 12/29/82 | $ Change Since Week Ago | $ Change Since Year Ago |
|---|---|---|---|
| Reserve Bank Credit | | | |
| U.S. Gov'ts and Agencies Owned Outright & RPs | 146.922 | – .352 | + 8.144 |
| Loans to Depository Inst. | .691 | + .144 | – .191 |
| Float | 3.415 | + .495 | – .033 |
| Total Reserve Bank Credit | 161.434 | + .944 | + 8.285 |
| Treasury Deposits with Federal Reserve Banks | 3.328 | + .369 | + .416 |
| Currency Outside Banks | 138.759 | + .764 | + 9.605 |
| Member Bank Reserves: | | | |
| Required | 41.234 | – .813 | – .792 |
| Excess (Deficiency) | .878 | + .662 | + .536 |
| Total Reserves Held | 42.112 | – .151 | – .256 |
| Net Free Reserves | .422 | + .526 | + .714 |
| Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week) | 106.142 | – .130 | +11.020 |

| Monetary Aggregates† | | % Change Since Three Months Ago* | % Change Since Year Ago |
|---|---|---|---|
| M1 | 478.4 | + 16.3‡ | + 8.7‡ |
| M2 (November '82) | 1,987.4 | + 8.3 | + 9.8 |
| M3 (November '82) | 2,401.2 | + 7.6 | + 10.4 |
| L (August '82) | 2,858.2 | + 12.1 | + 11.7 |

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

## New York Money Market

| Offering Rates 1/7/83 | 3 Months | 6 Months | 1 Year |
|---|---|---|---|
| ‡U.S. Treasury Bills | 7.85% | 7.90% | 7.95% |
| * Federal Agencies | 8.07 | 8.12 | 8.75 |
| * Project Notes—Taxfree (46% Taxable Equivalent) | 7.59 | 8.80 | 9.26 |
| Negotiable Time CDs Manufacturers Hanover | Rates By Arrangement | | |
| * Secondary Market—Prime | 8.50 | 8.50 | 9.00 |

| ‡Finance Company Paper—Prime | | ‡* Bankers' Acceptances | |
|---|---|---|---|
| 5- 14 days | 7.75% | Feb. | 8.25% |
| 15- 29 days | 7.75 | Mar. | 8.20 |
| 30- 59 days | 8.00 | Apr. | 8.20 |
| 60- 89 days | 8.13 | May | 8.25 |
| 90-179 days | 8.25 | Jun. | 8.20 |
| 180-239 days | 8.25 | Jul. | 8.10 |
| 240-270 days | 8.25 | | |

| ‡Industrial Paper—Prime | | | |
|---|---|---|---|
| 30- 89 days | 8.25% | †Federal Funds Effective Rate | 8.15% |
| 90-120 days | 8.25 | | |

‡Discount basis. * Subject to availability. † Estimated.

## Selected Business Indicators

(All Dollar Figures in Billions)

| | Latest Period or End of Period | | Previous Period | Year Ago Period |
|---|---|---|---|---|
| Gross National Product (Current Dollars)* | 3rd Q'82 | $ 3,088 | $ 3,045 | $ 2,981 |
| Gross National Product (1972 Dollars)* | 3rd Q'82 | $ 1,481 | $ 1,478 | $ 1,510 |
| Percent Change, Annual Rate | 3rd Q'82 | 0.7 | 2.1 | 2.2 |
| Change in Consumer Prices (all urban consumers)* | Nov '82 | 1.2% | 6.0% | 6.0% |
| Change in Producer Prices* | Nov '82 | 7.2% | 6.0% | 6.0% |
| Civilian Employment (Thousands of Persons)† | Dec '82n | 99,093 | 99,136 | 99,677 |
| Unemployment as % of Civilian Labor Force† | Dec '82n | 10.8% | 10.7% | 8.6% |
| Personal Income* | Nov '82 | $ 2,621 | $ 2,611 | $ 2,499 |
| Leading Indicators Composite Index (1967=100)† | Nov '82 | 131.7 | 130.7 | 128.2 |
| Industrial Production Index (1967=100) † | Nov '82 | 135.6 | 136.2 | 146.3 |
| Net Change in Consumer Installment Credit† | Oct '82 | –$ 0.32 | $ 1.09 | $ 1.00 |
| U.S. Merchandise Trade Balance † | Nov '82 | –$ 4.09 | –$ 5.33 | –$ 4.42 |
| Plant and Equipment Expenditures*. | 1st Q'83 | $316.40(a) | $324.47(a) | $327.72 |
| Private Housing Starts (Thousands of Units)* | Nov '82 | 1,428 | 1,129 | 860 |
| New Construction Expenditures* | Nov '82n | $ 237.2 | $ 229.1 | $ 230.0 |
| Total Business Inventories† | Oct '82 | $ 515.1 | $ 515.4 | $ 518.2 |
| Total Business Sales† | Oct '82 | $ 332.1 | $ 339.5 | $ 346.6 |

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

as loan demand weakens and deposit flows pick up.

### . . . Some Temporary Elbow Room

If the past is any guide, there is some room for expansion. Whereas commercial banks had acquired about 13 per cent of all new Treasury and agency offerings between 1979 and 1981, by the third quarter of last year this ratio had fallen to less than four per cent. Simply lifting the proportion back to where it had stood could result in an additional $28 billion of commercial bank purchases of Federal securities (at third quarter borrowing levels)—an amount alone equivalent to almost two thirds of the anticipated rise in Federal and related borrowings in fiscal 1983!

This development should more than offset the expected declines in the level of Treasury takedowns by money market funds which are rapidly losing deposits to the new accounts that pay money market rates of interest now being offered by commercial banks and thrifts. Another source of financing for Washington is the foreign sector. But last year, the proportion of governments sold to foreigners dropped below 1981's five per cent level as foreign central banks liquidated Treasuries to defend their currencies against the soaring dollar. By the third quarter of 1982, in fact, this ratio had fallen to less than three per cent. However, the recent weakening of the dollar suggests that foreign demand may strengthen this year as dollar-denominated assets become less expensive in terms of foreign currencies, easing even further the Federal financing burden. H

## Short Term Paper Outstanding

(Millions of Dollars)

| | Latest Week | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| **Negotiable Time CD's Weekly Reporting Banks** | | | |
| Nationwide (12/22/82) | 134,639 | – 1,780 | – 828 |
| New York City (12/22/82) | 36,576 | – 521 | + 1,741 |
| **Commercial Paper** (12/22/82) | 169,995 | – 2,382 | + 4,397* |

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

## Bank Loans

(Millions of Dollars)

**Commercial and Industrial Loans**

| Weekly Reporting Large Commercial Banks | Latest Week | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| Nationwide (12/22/82) | 216,668 | + 823 | +23,773 |
| New York City (12/22/82) | 61,003 | – 22 | + 6,090 |

**Total Loans Gross Adjusted**

| | Latest Week | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| Nationwide (12/22/82) | 506,523 | + 2,454 | +37,929 |
| New York City (12/22/82) | 122,111 | + 1,323 | +11,085 |

## Financial Markets

| | Friday 1/7/83 | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| **U.S. Governments, Closing Yields:** | | | |
| 90-Day Bills† | 8.05% | – .25 | – 3.90 |
| 180-Day Bills† | 8.22 | – .33 | – 4.98 |
| Longest Bills† | 8.50 | – .25 | – 5.17 |
| **Recent Issues:** | | | |
| 9 3/8s 12/31/84 | 9.26 | – .26 | |
| 10s 12/31/86 | 9.86 | – .17 | |
| 10 1/2s 11/15/92 | 10.37 | – .05 | |
| 10 3/8s 11/15/12 | 10.48 | 0.00 | |
| **Municipals:** | | | |
| Bond Buyer–20 Bond Index* (1/6/83) | 9.48% | – .08 | – 3.88 |
| Blue List Total ($ Million) | $ 966 | – $ 81 | – $ 76 |
| 30-Day Visible Supply ($ Million) | $1,432 | + $477 | – $688 |
| Total | $2,398 | + $396 | – $764 |
| **Corporates:** | | | |
| Moody's Aa Composite (1/6/83) | 12.38% | – .60 | – 3.27 |
| 30-Day Visible Supply ($ Million) ‡ | $577 | – $180 | NA |
| **Stocks:** | | | |
| **Dow-Jones Averages:** | | | |
| Industrials | 1,076.07 | + 28.70 | + 209.54 |
| Transportation | 460.37 | + 12.31 | + 91.70 |
| Utilities | 124.49 | + 5.03 | + 16.81 |
| 65 Stocks | 421.27 | + 12.02 | + 79.28 |
| **Standard and Poor's 500 Stocks** | 145.18 | + 4.85 | + 5.63 |
| **N.Y.S.E. Composite Index** | 83.67 | + 2.88 | + 14.31 |
| **N.Y.S.E. Avg. Daily Vol. for Week (000's)** | 97,572 | +38,797 | + 53,270 |

* 46% Taxable equivalent 17.56%.
‡Series redefined: Historical data not available.
† Bond equivalent.

## International Rates

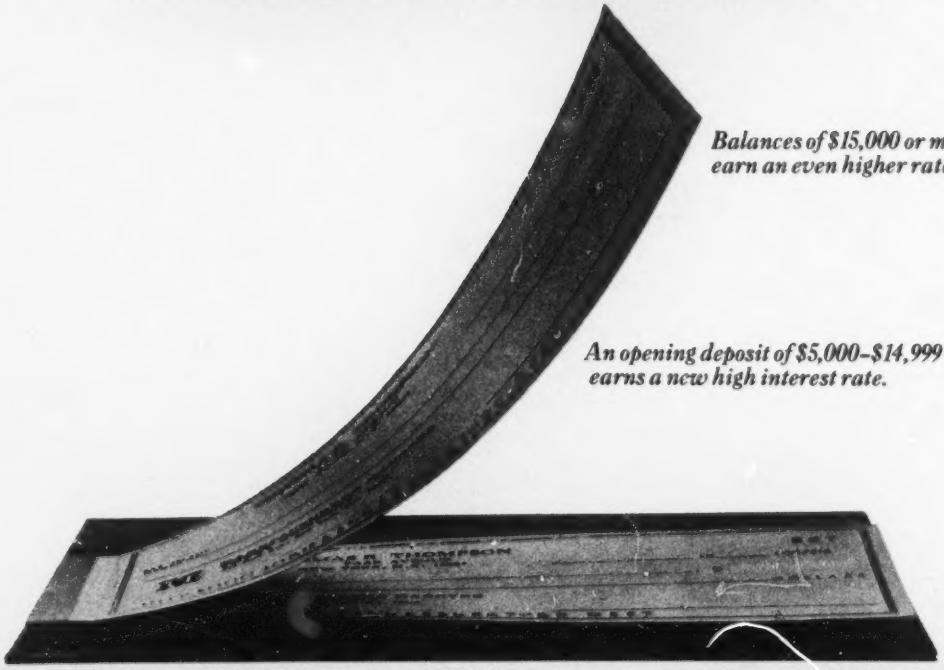
| EURODOLLAR DEPOSIT RATES (bid) | Friday 1/7/83 | Week Ago |
|---|---|---|
| Overnight | 8.63% | 8.38% |
| 1 month | 8.81 | 9.06 |
| 3 month | 8.81 | 9.19 |
| 6 month | 8.94 | 9.38 |
| 1 year | 9.19 | 9.63 |
| **EURODOLLAR BONDS** | | |
| **Average Yield** | | |
| Medium Term (5 to 7 yrs.) | 11.85% | 12.00% |
| Long Term (7 to 15 yrs.) | 11.95 | 12.10 |

**FOREIGN EXCHANGE SPOT RATES**

| New York Opening (1/7/83) | U.S. $ Equivalent | Currency Per U.S. $ |
|---|---|---|
| Belgium | .02165 | 46.20 |
| Canada | .8132 | 1.2297 |
| Denmark | .1199 | 8.3375 |
| France | .1504 | 6.6500 |
| Germany | .4266 | 2.3440 |
| Italy | .0007391 | 1353.00 |
| Japan | .004339 | 230.45 |
| Mexico | .006667 | 150.00 |
| Netherlands | .3859 | 2.5915 |
| Switzerland | .5126 | 1.9510 |
| U.K. | 1.6020 | .6242 |

*A Fact from Manufacturers Hanover:*

# YOUR ECONOMIC UPSWING STARTS NOW.



*Balances of $15,000 or more earn an even higher rate.*

*An opening deposit of $5,000–$14,999 earns a new high interest rate.*

## INTRODUCING OUR SUPER N.O.W. ACCOUNT.

The facts are in. Starting right now, the money in your checking account can earn higher interest than ever. When your checking account is the new Manufacturers Hanover Super N.O.W. Account.

### FACT: YOU GET UNLIMITED CHECKING AND A SUPER INTEREST RATE.

We can make your economic outlook brighter this year. Just deposit $5,000* or more into a Manufacturers Hanover Super N.O.W. Account, and the money you keep in checking can earn money market interest rates.

Like all of our checking accounts, you can write as many checks as you want, or make as many deposits as you want.

### FACT: DOING MORE OF YOUR BANKING WITH US MAKES YOUR MONEY WORTH EVEN MORE.

There's never been a better reason to do all your banking at Manufacturers Hanover. Because your money will earn an even higher rate if you keep $15,000 in our Super N.O.W. Account, or in a combination of our other savings investments. And like all of our accounts, your total deposits are FDIC insured up to $100,000.

### FACT: WE MAKE BANKING SUPER CONVENIENT.

It's easy to see why our Super N.O.W. Account is more convenient. With it, you can get an MHT Card℠ and have access to all of our MHT 24-Hour Banking® Centers. You can get cash, make deposits, or check your balance whenever you want. And when you want to cash a check, you can also use your MHT Card at any of our more than 200 branches.

To get all the facts about making the money you keep in checking worth more, come into any Manufacturers Hanover branch and ask about our new Super N.O.W. Account.

It's the easiest way we know to improve the state of your personal finances.

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Minimum opening deposit $5,000. Interest rates change weekly. Interest is compounded daily and credited monthly.

*If on any day during the month daily Super N.O.W. balance falls below $5,000, you must pay a $10 service charge for that month. If your daily Super N.O.W. balance falls below $2,500, you earn the regular N.O.W. Account rate, currently 5¼% per year.

**MANUFACTURERS HANOVER TRUST**

Our facts make your money worth more.

Member FDIC. Personal Accounts Only. More information about our savings plans is available at any branch.